

CITY OF CHARITON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2014

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City of Chariton

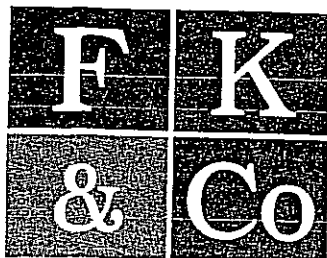
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
Roger D. Manser	Mayor	January 1, 2014
Raymond Meyer	Council Member	January 1, 2014
Dennis Bisgard	Council Member	January 1, 2014
Ruth Smith	Council Member	January 1, 2016
Michael W. Graves	Council Member	January 1, 2016
Corey Goodenow	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	Indefinite
Verle W. Norris	Attorney	Indefinite
(After January 2014)		
Roger D. Manser	Mayor	January 1, 2018
Ruth Smith	Council Member	January 1, 2016
Michael W. Graves	Council Member	January 1, 2016
Dennis Bisgard	Council Member	January 1, 2018
Vernon Vogel	Council Member	January 1, 2018
Corey Goodenow *	Manager	Indefinite
Joe Gaa **	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	Indefinite
Verle W. Norris	Attorney	Indefinite

* - Resigned January, 2014.

** - Appointed effective March, 2014.

City of Chariton



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. The basis of cash receipts and disbursements require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the receipts, disbursements and the cash basis balances of the government-wide financial statement for the omitted discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2014, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's primary government financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the primary government financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the primary government financial statements or to the primary government financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 8 through 13 and 30 through 31 has not been subjected to the auditing procedures applied in the audit of the primary government financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.


FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
February 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Chariton (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.1%, or approximately \$309,000, from fiscal year 2013 to fiscal year 2014. Capital grants, contributions and restricted interest increased approximately \$388,000, and operating grants, contributions and restricted interest decreased approximately \$114,000.
- Disbursements of the City's governmental activities increased 3.1%, or approximately \$103,000, in fiscal year 2014 from fiscal year 2013. Debt service disbursements decreased approximately \$343,000 and culture and recreation, community and economic development and capital projects disbursements increased approximately \$119,000, \$200,000 and \$160,000, respectively.
- The City's total cash basis net position increased 3.3%, or approximately \$198,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased approximately \$39,000 and the cash basis net position of the business type activities increased approximately \$237,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds and the non-major proprietary funds, and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system, solid waste, airport, and storm water. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Local Option Sales Tax funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Sewer Fund and the Solid Waste Fund, considered to be major funds of the City. The Airport Fund and the Storm Water Fund are considered to be non-major funds of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$5.143 million to approximately \$5.104 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 196	175
Operating grants, contributions and restricted interest	533	647
Capital grants, contributions and restricted interest	411	23
General receipts:		
Property tax	1,831	1,768
Local option sales tax	329	347
Hotel-Motel tax	31	37
Grants and contributions not restricted to specific purposes	18	19
Unrestricted interest on investments	3	6
Miscellaneous	5	29
Sale of capital assets	3	-
Total receipts	3,360	3,051
Disbursements:		
Public safety	655	671
Public works	654	698
Health and social services	7	5
Culture and recreation	608	489
Community and economic development	238	38
General government	358	333
Debt service	461	804
Capital projects	454	294
Total disbursements	3,435	3,332
Change in cash basis net position before transfers	(75)	(281)
Transfers, net	36	40
Change in cash basis net position	(39)	(241)
Cash basis net position beginning of year	5,143	5,384
Cash basis net position end of year	\$ 5,104	5,143

The City's total receipts for governmental activities increased 10.1%, or approximately \$309,000. The total cost of all programs and services increased approximately \$103,000, or 3.1%, with no new programs added this year. The increase in receipts was the result of an increase in capital grants, contributions and restricted interest. The increase in disbursements is the result of an increase in the culture and recreation and community and economic development projects in fiscal year 2014.

The City increased property tax rates for fiscal year 2014. This increase raised the City's property tax receipts approximately \$63,000 from fiscal year 2013 to fiscal year 2014. Property tax receipts are budgeted to remain relatively the same in fiscal year 2015.

The cost of all governmental activities this year was approximately \$3.435 million compared to approximately \$3.332 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$2.296 million because some of the cost was paid by those directly benefited from the programs (approximately \$196,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$944,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2014 from approximately \$845,000 to approximately \$1,140,000, principally due to increased capital grants, contributions and restricted interest in fiscal year 2014 compared to fiscal year 2013.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 791	774
Solid waste	23	24
Airport	83	69
Storm water	66	63
Capital grants, contributions and restricted interest	4	76
General receipts:		
Unrestricted interest on investments	-	1
Miscellaneous	56	38
Total receipts	1,023	1,045
Disbursements:		
Sewer	603	654
Solid waste	18	13
Airport	97	79
Storm water	32	18
Total disbursements	750	764
Change in cash basis net position before transfers	273	281
Transfers, net	(36)	(40)
Change in cash basis net position	237	241
Cash basis net position beginning of year	930	689
Cash basis net position end of year	\$ 1,167	930

Total business type activities receipts for the fiscal year were approximately \$1.023 million compared to approximately \$1.045 million last year. The decrease was due primarily due to a decrease in capital grants, contributions and restricted interest in fiscal year 2014. The cash balance increased approximately \$237,000 from the prior year. Total disbursements for the fiscal year decreased 1.8% to approximately \$.75 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$5,100,531, a decrease of more than \$37,000 below last year's total of \$5,138,056. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$108,477 from the prior year to \$878,091. The City has been watching the General Fund very close in order to stabilize the balance in this fund.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$37,812 from the prior year to \$193. This decrease was just due to spending more from this fund in fiscal year 2014.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$143,961 during the fiscal year to a total of \$1,174,650. This decrease in cash is due to increased capital project costs incurred in this fund in fiscal year 2014.
- The Special Revenue, Employee Benefits Fund cash balance increased by \$65,027 from the prior year to \$288,082. In the fiscal year, the City just levied more than related costs incurred in this fund.
- The Debt Service Fund cash balance decreased by \$20,145 during the fiscal year to a total of \$1,967,613. This decrease was due to the use of reserve funds to cover the required debt service. \$1,952,221 in funds are being held in escrow which will be used to call bonds in fiscal year 2015.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased by \$203,223 to \$695,792, due to fewer capital project costs incurred in fiscal year 2014 compared to fiscal year 2013.
- The Enterprise, Solid Waste Fund cash balance increased by \$5,389 to \$433,693, due primarily to the need to continue to develop reserves to an adequate level to address upcoming capital expenditures.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time. The budget was amended because of equipment purchases and capital projects which were greater than originally anticipated. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$1,147,417 less than budgeted. This was primarily due to the City receiving less intergovernmental and charges for services receipts than anticipated, even after the budget amendments.

Even though the City did not go over budget in total, disbursements in the health and social services function were \$17 more than the amended budget amount.

DEBT ADMINISTRATION

At June 30, 2014, the City had approximately \$5,222,000 in bonds and other long-term debt outstanding, compared to approximately \$5,568,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2014	2013
General obligation bonds and notes	\$ 4,500	4,780
Revenue bonds	686	718
Lease purchase agreement	36	70
Total	\$ 5,222	5,568

Debt decreased as a result of retiring debt in the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2012	\$ 149,827,821
Debt Limit	<u>5%</u>
	<u>\$ 7,491,391</u>

The City's outstanding general obligation debt of \$4,500,000 is below the constitutional debt limit of \$7,491,391.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2015. Amounts available for appropriation in the operating budget are approximately \$7.0 million, keeping in line with 2014 budget year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ruth A. Ryun, City Clerk, 115 South Main Street, Chariton, Iowa 50049.

Primary Government Financial Statements

Cash Basis Statement of Activities and Net Position

Exhibit A

As of and for the year ended June 30, 2014

Functions / Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 655,109	4,010	38,896	69,345	(542,858)	-	(542,858)
Public works	654,393	48,936	444,572	15,841	(145,044)	-	(145,044)
Health and social services	7,417	-	-	-	(7,417)	-	(7,417)
Culture and recreation	607,839	120,702	35,971	76,205	(374,961)	-	(374,961)
Community and economic development	237,933	-	-	146,142	(91,791)	-	(91,791)
General government	357,612	22,602	7,614	28,752	(298,644)	-	(298,644)
Debt service	461,016	-	5,901	-	(455,115)	-	(455,115)
Capital projects	454,448	-	-	74,331	(380,117)	-	(380,117)
Total governmental activities	3,435,767	196,250	532,954	410,616	(2,295,947)	-	(2,295,947)
Business type activities:							
Sewer	603,058	790,755	-	4,047	-	191,744	191,744
Solid waste	18,342	23,430	-	-	-	5,088	5,088
Airport	97,057	83,235	-	-	-	(13,822)	(13,822)
Storm water	31,674	65,417	-	-	-	33,743	33,743
Total business type activities	750,131	962,837	-	4,047	-	216,753	216,753
Total	\$ 4,185,898	1,159,087	532,954	414,663	(2,295,947)	216,753	(2,079,194)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,395,946	-	1,395,946
Debt service					434,710	-	434,710
Local option sales tax					329,448	-	329,448
Hotel-Motel tax					31,002	-	31,002
Grants and contributions not restricted to specific purposes					18,343	-	18,343
Unrestricted interest on investments					3,319	272	3,591
Miscellaneous					5,200	56,010	61,210
Sale of capital assets					2,550	-	2,550
Transfers					36,209	(36,209)	-
Total general receipts and transfers					2,256,727	20,073	2,276,800
Change in cash basis net position					(39,220)	236,826	197,606
Cash basis net position beginning of year					5,143,273	929,742	6,073,015
Cash basis net position end of year					\$ 5,104,053	1,166,568	6,270,621
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 215,766	-	215,766
Expendable:							
Insurance					18,881	-	18,881
Community center					98,943	-	98,943
Debt service					1,967,613	15,263	1,982,876
Streets					193	-	193
Other purposes					2,044,114	-	2,044,114
Unrestricted					758,543	1,151,305	1,909,848
Total cash basis net position					\$ 5,104,053	1,166,568	6,270,621

See notes to financial statements.

City of Chariton

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue						Total
	General	Road Use Tax	Option Sales Tax	Employee Benefits	Debt Service	Nonmajor	
Receipts:							
Property tax	\$ 917,544	-	-	373,020	420,126	-	1,710,690
Other city tax	123,476	-	329,448	12,908	14,584	-	480,416
Licenses and permits	20,280	-	-	-	-	-	20,280
Use of money and property	16,926	-	1,097	-	6,161	338	24,522
Intergovernmental	160,882	431,468	4,052	-	-	143,540	739,942
Charges for service	118,037	-	-	-	-	-	118,037
Miscellaneous	229,436	-	492	5,202	-	28,771	263,901
Total receipts	1,586,581	431,468	335,089	391,130	440,871	172,649	3,357,788
Disbursements:							
Operating:							
Public safety	535,894	-	-	119,035	-	-	654,929
Public works	95,971	469,280	-	88,777	-	-	654,028
Health and social services	7,417	-	-	-	-	-	7,417
Culture and recreation	543,830	-	-	63,912	-	37	607,779
Community and economic development	58,595	-	-	-	-	179,338	237,933
General government	302,143	-	-	54,379	-	-	356,522
Debt service	-	-	-	-	461,016	-	461,016
Capital projects	48,748	-	388,935	-	-	16,765	454,448
Total disbursements	1,592,598	469,280	388,935	326,103	461,016	196,140	3,434,072
Excess (deficiency) of receipts over (under) disbursements	(6,017)	(37,812)	(53,846)	65,027	(20,145)	(23,491)	(76,284)
Other financing sources (uses):							
Sale of capital assets	2,550	-	-	-	-	-	2,550
Operating transfers in	145,929	-	33,985	-	-	14,380	194,294
Operating transfers out	(33,985)	-	(124,100)	-	-	-	(158,085)
Total other financing sources (uses)	114,494	-	(90,115)	-	-	14,380	38,759
Change in cash balances	108,477	(37,812)	(143,961)	65,027	(20,145)	(9,111)	(37,525)
Cash balances beginning of year	769,614	38,005	1,318,611	223,055	1,987,758	801,013	5,138,056
Cash balances end of year	\$ 878,091	193	1,174,650	288,082	1,967,613	791,902	5,100,531
Cash Basis Fund Balances							
Nonspendable:							
Cemetery perpetual care	\$ -	-	-	-	-	215,766	215,766
Restricted for:							
Insurance	18,881	-	-	-	-	-	18,881
Community center	98,948	-	-	-	-	-	98,948
Debt service	-	-	-	-	1,967,613	-	1,967,613
Streets	-	193	-	-	-	-	193
Other purposes	-	-	1,174,650	288,082	-	581,382	2,044,114
Assigned	667,982	-	-	-	-	-	667,982
Unassigned	92,280	-	-	-	-	(5,246)	87,034
Total cash basis fund balances	\$ 878,091	193	1,174,650	288,082	1,967,613	791,902	5,100,531

See notes to financial statements.

City of Chariton

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2014

Total governmental funds cash balances (page 16) \$ 5,100,531

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

3,522

Cash basis net position of governmental activities (page 15) \$ 5,104,053

Change in cash balances (page 16) \$ (37,525)

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(1,695)

Change in cash basis net position of governmental activities (page 15) \$ (39,220)

See notes to financial statements.

City of Chariton

Exhibit D

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2014

	Enterprise				Internal Service Central Fuel
	Sewer	Solid Waste	Nonmajor	Total	
Operating receipts:					
Use of money and property	\$ -	272	42,002	42,274	-
Charges for service	790,755	23,430	106,650	920,835	291,061
Total operating receipts	790,755	23,702	148,652	963,109	291,061
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	15,614
Public works	-	-	-	-	31,743
Culture and recreation	-	-	-	-	5,231
General government	-	-	-	-	231,420
Business type activities	548,644	18,342	128,808	695,794	7,750
Total operating disbursements	548,644	18,342	128,808	695,794	291,758
Excess (deficiency) of operating receipts over (under) operating disbursements	242,111	5,360	19,844	267,315	(697)
Non-operating receipts (disbursements):					
Intergovernmental	4,047	-	-	4,047	-
Miscellaneous	48,609	29	7,372	56,010	-
Debt service	(55,335)	-	-	(55,335)	-
Net non-operating receipts (disbursements)	(2,679)	29	7,372	4,722	-
Excess (deficiency) of receipts over (under) disbursements	239,432	5,389	27,216	272,037	(697)
Other financing sources (uses):					
Operating transfers out	(36,209)	-	-	(36,209)	-
Total other financing sources (uses)	(36,209)	-	-	(36,209)	-
Change in cash balances	203,223	5,389	27,216	235,828	(697)
Cash balances beginning of year	492,569	428,304	9,341	930,214	4,745
Cash balances end of year	\$ 695,792	433,693	36,557	1,166,042	4,048
Cash Basis Fund Balances					
Restricted for debt service	\$ 15,263	-	-	15,263	-
Unrestricted	680,529	433,693	36,557	1,150,779	4,048
Total cash basis fund balances	\$ 695,792	433,693	36,557	1,166,042	4,048

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Proprietary Funds

As of and for the year ended June 30, 2014

Total enterprise funds cash balances (page 18)	\$ 1,166,042
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Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

526

Cash basis net position of business type activities (page 15)	<u>\$ 1,166,568</u>
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Change in cash balances (page 18)	\$ 235,828
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Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

998

Change in cash basis net position of business type activities (page 15)	<u>\$ 236,826</u>
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See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

The City of Chariton (City) is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general governmental services. The City also provides sewer, storm water, and airport services for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Units

The Chariton Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Chariton Volunteer Fire Department was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Chariton Volunteer Fire Department is to support the activities of the Chariton, Iowa fire department.

The Chariton Public Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Chariton Public Library Foundation is to support the activities of the Chariton, Iowa public library.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary funds are aggregated and reported as nonmajor governmental funds and nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for the operation and maintenance of the municipal swimming pool, along with infrastructure improvements including street, sanitary sewer, storm water and park improvements.

The Employee Benefits Fund is utilized to account for property tax and other receipts to be used for the payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's closed landfill.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the health and social services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, an escrow agent held U.S. Treasury notes for the City with a carrying amount and fair value of \$1,952,221 which mature in June 2015.

During the fiscal year, the City also owned corporate stock. At June 30, 2014, the City had disposed of this corporate stock. Corporate stock is not an allowable investment according to the Code of Iowa.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$2,205,000	134,770	33,000	20,580	2,238,000	155,350
2016	325,000	43,450	34,000	19,590	359,000	63,040
2017	330,000	39,400	36,000	18,570	366,000	57,970
2018	340,000	32,800	37,000	17,490	377,000	50,290
2019	250,000	26,000	38,000	16,380	288,000	42,380
2020	255,000	21,000	39,000	15,240	294,000	36,240
2021	260,000	15,900	40,000	14,070	300,000	29,970
2022	265,000	10,700	42,000	12,870	307,000	23,570
2023	270,000	5,400	43,000	11,610	313,000	17,010
2024	-	-	45,000	10,320	45,000	10,320
2025	-	-	46,000	8,970	46,000	8,970
2026	-	-	47,000	7,590	47,000	7,590
2027	-	-	49,000	6,180	49,000	6,180
2028	-	-	51,000	4,710	51,000	4,710
2029	-	-	52,000	3,180	52,000	3,180
2030	-	-	54,000	1,620	54,000	1,620
	<u>\$4,500,000</u>	<u>329,420</u>	<u>686,000</u>	<u>188,970</u>	<u>5,186,000</u>	<u>518,390</u>

General Obligation Refunding Notes

In June 2012, the City issued \$2,070,000 of general obligation corporate purpose and refunding bonds, Series 2012A, with interest rates ranging from 1.00% - 2.00%, for a crossover refunding of a portion of the general obligation corporate purpose and refunding bonds issued September 15, 2008.

The City entered into an escrow agreement whereby the proceeds from the general obligation corporate purpose and refunding bonds were converted into U.S. government securities. These securities were placed in an escrow account for the express purpose of paying the \$1,920,000 principal on the refunded general obligation corporate purpose and refunding bonds when they become callable on June 1, 2015 and the interest from December 1, 2012 to and including June 1, 2015 on the general obligation corporate purpose and refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions and balances of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

Sewer Revenue Bond (Series 2009-A) – On January 13, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (trustee) for the issuance of a \$808,000 sewer revenue bond with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the sewer revenue bond was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2010 by the bank from the first proceeds of the sewer revenue bond drawn down by the City.

The City has pledged future customer wastewater customer receipts, net of specified operating disbursements, to repay \$808,000 in a sewer revenue bond issued in 2010. The bond is payable solely from wastewater customer net receipts and is payable through 2030. Annual principal and interest payment on the bond is expected to require less than 23% of net receipts. The total principal and interest remaining to be paid on the bond is \$874,970. For the current year, principal and interest paid and total customer net receipts were \$55,343 and \$242,111, respectively.

The resolutions providing for the issuance of the wastewater revenue bonds include the following provisions:

- (a) The bond will only be redeemed from the future earnings of the City and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a wastewater revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bond.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the sewer system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

(4) **Lease Purchase Agreement**

On June 1, 2011, the City entered into a lease-purchase agreement to lease a street sweeper.

In May, 2011, the City passed a resolution which stated the City pledges the full faith and credit of the City for payment of the amounts due on this lease agreement. As a result of this resolution, the City levied a debt service levy to pay the lease payment due in fiscal year 2014 from the Debt Service Fund. However, in June, 2011, the City signed an agreement with the lease finance company which stated that the lease payments are payable from the General Fund of the City.

On June 1, 2015, there is one lease payment of \$36,713 due, of which \$35,648 is principal and \$1,065 is interest. This lease purchase is scheduled to be paid off on June 1, 2015.

Payments under lease-purchase agreement totaled \$36,713 during the year ended June 30, 2014.

(5) Operating Lease Agreement

The City is leasing a copy machine for \$195 per month. As of June 30, 2014, total future payments in relation to this lease are \$3,900, of which \$2,340 is due during the year ended June 30, 2015 and \$1,560 is due during the year ended June 30, 2016, at which time the operating lease will expire.

Total rent expense during the fiscal year on this operating lease agreement was \$2,340.

(6) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$79,255, \$74,920 and \$83,049, respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 14 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and the plan members are \$494 for single coverage, \$1,001 for employee/spouse coverage, \$945 for employee/dependent coverage, and \$1,465 for family coverage. For the year ended June 30, 2014, the City contributed \$112,979 and plan members eligible for benefits contributed \$39,170 to the plan.

(8) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, overtime, holiday and sick leave time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime, holiday and sick leave time payable to employees at June 30, 2014, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation, overtime and holiday	\$ 80,253
Sick leave	150,210
	<u>230,463</u>
Toal	\$ 230,463

The liability has been computed based on the rates of pay in effect at June 30, 2014.

(9) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the police department and the City Manager, allows those employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency. The City provides neither administrative service to the plan nor investment advice for the plan.

The contributions made by the City for the year ended June 30, 2014 were \$16,956.

(10) **Interfund Loan**

During the year ended June 30, 2012, the Special Revenue, Library Endowment Fund loaned \$73,000 to the Enterprise, Sewer Fund. The purpose of this loan was to provide funds to the Enterprise, Sewer Fund to make improvements to the City's sanitary sewer system. The loan is to be repaid in semi-annual payments of \$7,604.50 including interest at 1.50% per annum. The balance of the loan at June 30, 2014 was \$44,453. Total principal and interest paid during the year was \$15,209.

(11) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 124,100
	Enterprise:	
	Sewer	21,829
		<u>145,929</u>
Special Revenue:		
Local Option Sales Tax	General	<u>33,985</u>
Special Revenue:	Enterprise:	
Library Endowment	Sewer	<u>14,380</u>
		<u>\$ 194,294</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(12) **Related Party Transactions**

The City had business transactions between the City and City officials totaling \$18,280 during the year ended June 30, 2014.

(13) Deficit Fund Balances

At June 30, 2014, the City had deficit balances as follows:

Fund	Amount
Special Revenue, Tax Increment Financing Fund	\$ 5,246
Enterprise, Airport Fund	52,119

The Special Revenue, Tax Increment Financing Fund deficit occurred because costs were incurred prior to tax collections to be received in this fund.

The Enterprise, Airport Fund deficit occurred because the City is unable to generate sufficient income from the airport operation to operate the airport. The City has no plans to eliminate this deficit.

(14) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(15) Landfill Closure

The City landfill closed on April 1, 1994. Closure costs were incurred by the City in prior years for a final cover. Because the landfill closed before the effective date of state and federal rules and regulations, the City is not required to meet certain postclosure care requirements or demonstrate financial assurance for closure and postclosure care. However, state law requires the City to conduct ground water monitoring at the landfill for 30 years.

(16) Contingencies

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City is paying its lease-purchase payment from a debt service tax levy, as documented in Note 4 above. However, it is unclear if the City should have paid the lease-purchase payment from a debt service tax levy or from the General Fund. In the event it is determined the lease-purchase payment should have been paid from the General Fund, the City may have to repay the property owners of the City the amount of the debt service tax levy used to pay the lease-purchase. Total amount paid by the City from the debt service tax levy for this lease-purchase as of June 30, 2014, is unknown.

(17) Commitments

The City and Lucas County entered into an agreement whereby the Sheriff's Office would provide dispatch services to the City. The agreement between the City and Lucas County expired on June 30, 2014. However, effective July 1, 2014, the agreement automatically renewed on a fiscal year-to-year basis. The total amount scheduled to be paid by the City in fiscal year 2015 to Lucas County in relation to this agreement is \$69,430.

The City and PeopleService, Inc. (PeopleService) have entered into an agreement with an effective date of July 1, 2014. The agreement is a three year agreement. The agreement with PeopleService states that PeopleService will operate and maintain the City's sewer system. During fiscal year 2015, the City will pay PeopleService \$17,797 per month. On each July 1, the fee paid by the City to PeopleService will be adjusted based on the change in the consumer price index for all urban consumers.

The City entered into a construction contract for street improvements to North 6th Street. The total bid was \$319,021, with no disbursements in fiscal year 2014 on this project. This work will be paid for as work progresses in fiscal year 2015.

The City entered into a construction contract for roof repairs at the pool. The total bid was \$112,006, with no disbursements in fiscal year 2014 on this project. This work will be paid for as work progresses in fiscal year 2015.

The City entered into a construction project with a contractor to construct a new bridge. The total contract amount was \$1,230,962, with no disbursements to the construction contractor in fiscal year 2014 on this project. The work will be paid for as work progresses in fiscal year 2015. The City plans to pay for this project with a \$1,000,000 federal grant, and from existing cash reserves.

The City is in the process of an upper-level housing rehabilitation program. The City received a \$1,140,000 federal grant for this project. Total cost of this project is approximately \$1,600,000. As of June 30, 2014, the City had spent approximately \$174,000 on this project, and received an approximate \$135,000 in federal grant reimbursement. It is anticipated this project will be completed in fiscal year 2015.

The City received a federal grant in relation to the façade rehabilitation program. As of June 30, 2014, minimal costs were incurred in relation to this grant. It is anticipated the costs associated with this program will be incurred in fiscal year 2015 and 2016.

(18) **Fund Balance**

The City's assigned fund balance in the General Fund as of June 30, 2014 consists of the following:

Purpose	Amount
Cemetery	\$ 227,452
Library	393,927
Park	5,128
Recycling	41,475
Total	<u>\$ 667,982</u>

(19) **Subsequent Events**

The City has evaluated all subsequent events through February 2, 2015, the date the financial statements were available to be issued.

In fiscal year 2015, the City borrowed \$47,429 for the purchase of two new vehicles. The City will make loan payments on these vehicles until paid.

(20) **Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

Other Information

City of Charlton

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2014

	(Unaudited)							Final to Total Variance
	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Component Unit		Total	Budgeted Amounts Original	
				Charlton Municipal Waterworks Actual	Final			
Receipts:								
Property tax	\$ 1,710,690	-	-	-	1,710,690	1,698,457	1,698,457	12,233
Other city tax	480,416	-	-	-	480,416	422,552	422,552	57,864
Licenses and permits	20,280	-	-	-	20,280	21,875	21,875	(1,595)
Use of money and property	24,522	42,274	-	-	13,020	9,750	9,750	70,066
Intergovernmental	739,942	4,047	-	-	743,989	1,630,800	1,660,800	(916,811)
Charges for service	118,037	1,211,896	291,061	-	2,041,198	3,747,550	3,747,550	(667,480)
Miscellaneous	263,901	56,010	-	-	49,945	369,856	71,550	298,306
Total receipts	3,357,788	1,314,227	291,061	-	2,104,163	7,602,534	7,632,534	(1,147,417)
Disbursements:								
Public safety	654,929	15,614	15,614	-	-	654,929	689,120	34,191
Public works	654,028	31,743	31,743	-	-	654,028	667,560	13,532
Health and social services	7,417	-	-	-	-	7,417	7,400	(17)
Culture and recreation	607,779	5,231	5,231	-	-	607,779	907,615	299,836
Community and economic development	237,933	-	-	-	-	237,933	1,040,000	802,067
General government	356,522	231,420	231,420	-	-	356,522	367,493	10,971
Debt service	461,016	-	-	-	-	461,016	472,099	11,083
Capital projects	454,448	-	-	-	-	454,448	460,000	5,552
Business type activities	-	758,879	7,750	-	-	3,130,930	3,565,913	434,983
Total disbursements	3,434,072	1,042,887	291,758	-	-	6,565,002	7,882,200	1,612,198
Excess (deficiency) of receipts over (under) disbursements	(76,284)	271,340	(697)	-	-	(79,885)	(544,666)	464,781
Other financing sources, net	38,759	(36,209)	-	-	-	2,550	165,000	(162,450)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(37,525)	235,131	(697)	-	-	(77,335)	(379,666)	302,331
Balances beginning of year	5,138,056	934,959	4,745	-	-	7,244,072	6,472,536	771,536
Balances end of year	\$ 5,100,531	1,170,090	4,048	-	-	7,166,737	6,092,870	1,073,867

City of Chariton

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$295,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the health and social services function.

Supplementary Information

City of Charleston

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2014

	Special Revenue										Permanent	
	Revolving Loan Fund	Multi-Family Housing	Library Endowment	Historic Preservation	Special Assessment	Fire Department	Tax Increment Financing	Downtown Revitalization	Cemetery Perpetual Care	Total		
Receipts:												
Use of money and property	\$ 192	141	-	5	-	-	-	-	-	338		
Intergovernmental	-	135,540	-	-	-	-	-	8,000	-	143,540		
Miscellaneous	-	10,602	-	1,075	-	-	-	13,725	3,369	28,771		
Total receipts	192	146,283	-	1,080	-	-	-	21,725	3,369	172,649		
Disbursements:												
Operating:												
Culture and recreation	-	-	-	37	-	-	-	-	-	37		
Community and economic development	-	174,092	-	-	-	-	5,246	-	-	179,338		
Capital projects	-	-	-	-	-	-	-	16,765	-	16,765		
Total disbursements	-	174,092	-	37	-	-	5,246	16,765	-	196,140		
Excess (deficiency) of receipts over (under) disbursements	192	(27,809)	-	1,043	-	-	(5,246)	4,960	3,369	(23,491)		
Other financing sources:												
Operating transfers in	-	-	14,380	-	-	-	-	-	-	14,380		
Total other financing sources	-	-	14,380	-	-	-	-	-	-	14,380		
Change in cash balances	192	(27,809)	14,380	1,043	-	-	(5,246)	4,960	3,369	(9,111)		
Cash balances beginning of year	129,153	144,586	45,339	5,237	3,732	260,569	-	-	212,397	801,013		
Cash balances end of year	\$ 129,345	116,777	59,719	6,280	3,732	260,569	(5,246)	4,960	215,766	791,902		
Cash Basis Fund Balances												
Nonspendable:												
Cemetery perpetual care	\$ -	-	-	-	-	-	-	-	215,766	215,766		
Restricted for other purposes	129,345	116,777	59,719	6,280	3,732	260,569	-	4,960	-	581,382		
Unassigned	-	-	-	-	-	-	(5,246)	-	-	(5,246)		
Total cash basis fund balances	\$ 129,345	116,777	59,719	6,280	3,732	260,569	(5,246)	4,960	215,766	791,902		

See accompanying independent auditor's report.

City of Chariton

Schedule 2

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2014

	Enterprise		
	Airport	Storm Water	Total
Operating receipts:			
Use of money and property	\$ 42,002	-	42,002
Charges for service	41,233	65,417	106,650
Total operating receipts	83,235	65,417	148,652
Operating disbursements:			
Business type activities	97,134	31,674	128,808
Total operating disbursements	97,134	31,674	128,808
Excess (deficiency) of operating receipts over (under) operating disbursements	(13,899)	33,743	19,844
Non-operating receipts:			
Miscellaneous	7,372	-	7,372
Net non-operating receipts:	7,372	-	7,372
Change in cash balances	(6,527)	33,743	27,216
Cash balances beginning of year	(45,592)	54,933	9,341
Cash balances end of year	\$ (52,119)	88,676	36,557
Cash Basis Fund Balances			
Unrestricted	\$ (52,119)	88,676	36,557
Total cash basis fund balances	\$ (52,119)	88,676	36,557

See accompanying independent auditor's report.

City of Charlton

Schedule 3

Schedule of Indebtedness

Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes - Economic Development Note	June 1, 2004	4.93%	\$ 50,000	4,936	-	4,936	-	250	-
Corporate Purpose and Refunding Bonds	September 15, 2008	3.00%-4.50%	2,995,000	2,305,000	-	190,000	2,115,000	97,345	-
Corporate Purpose and Refunding Bonds	June 28, 2012	1.00%-2.00%	2,070,000	2,070,000	-	10,000	2,060,000	38,750	-
Corporate Purpose Bond	June 15, 2012	1.25%-2.00%	400,000	400,000	-	75,000	325,000	6,838	-
Total				\$4,779,936	-	279,936	4,500,000	143,183	-
Revenue Bonds - Sewer Revenue Bond	January 13, 2010	3.00%	\$ 808,000	718,000	-	32,000	686,000	21,450	-
Lease Purchase Agreement - Equipment	June 1, 2011	2.99%	\$ 173,212	70,260	-	34,612	35,648	2,101	-

See accompanying independent auditor's report.

City of Chariton

Schedule 4

Bond and Note Maturities

June 30, 2014

General Obligation Bonds and Notes							
Year Ending June 30,	Corporate Purpose and Refunding Bonds Issued September 15, 2008		Corporate Purpose and Refunding Bonds Issued June 28, 2012		Corporate Purpose Bond Issued June 15, 2012		Total
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2015	3.90%	\$ 2,115,000	1.00%	\$ 10,000	1.25%	\$ 80,000	2,205,000
2016	-	-	1.00%	245,000	2.00%	80,000	325,000
2017	-	-	2.00%	250,000	2.00%	80,000	330,000
2018	-	-	2.00%	255,000	2.00%	85,000	340,000
2019	-	-	2.00%	250,000	-	-	250,000
2020	-	-	2.00%	255,000	-	-	255,000
2021	-	-	2.00%	260,000	-	-	260,000
2022	-	-	2.00%	265,000	-	-	265,000
2023	-	-	2.00%	270,000	-	-	270,000
		<u>\$ 2,115,000</u>		<u>\$ 2,060,000</u>		<u>\$ 325,000</u>	<u>4,500,000</u>

Revenue Bonds		
Sewer Revenue Bond		
Issued January 13, 2010		
Year Ending June 30,	Interest	
	Rates	Amount
2015	3.00%	\$ 33,000
2016	3.00%	34,000
2017	3.00%	36,000
2018	3.00%	37,000
2019	3.00%	38,000
2020	3.00%	39,000
2021	3.00%	40,000
2022	3.00%	42,000
2023	3.00%	43,000
2024	3.00%	45,000
2025	3.00%	46,000
2026	3.00%	47,000
2027	3.00%	49,000
2028	3.00%	51,000
2029	3.00%	52,000
2030	3.00%	54,000
		<u>\$ 686,000</u>

See accompanying independent auditor's report.

City of Charlton

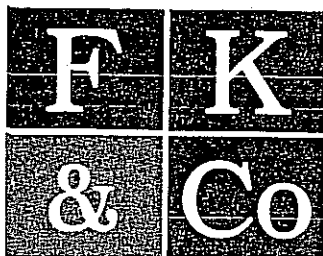
Schedule 5

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Receipts:										
Property tax	\$ 1,710,690	2,152,337	1,626,475	1,536,340	1,527,995	1,449,823	1,357,277	1,324,958	1,245,388	1,248,279
Tax increment financing	-	-	-	-	-	-	90,766	88,363	84,970	70,141
Other city tax	480,416	-	492,316	426,972	392,880	348,465	526,678	520,969	505,068	427,265
Licenses and permits	20,280	34,303	12,844	11,893	11,543	8,351	10,869	9,668	14,346	11,410
Use of money and property	24,522	13,637	17,671	42,337	56,569	81,874	116,875	313,763	231,890	64,000
Intergovernmental	739,942	569,635	794,761	707,313	720,783	1,419,371	723,369	509,582	450,401	455,901
Charges for service	118,037	140,202	145,342	131,338	117,015	123,850	101,806	74,262	116,669	128,300
Special assessments	-	-	-	-	3,732	2,221	22,658	11,033	15,771	15,688
Miscellaneous	263,901	126,396	131,500	312,480	181,044	295,759	172,556	638,795	347,416	1,671,264
Total	\$ 3,357,788	3,036,510	3,220,909	3,168,673	3,011,561	3,729,714	3,122,854	3,491,393	3,011,919	4,092,248
Disbursements:										
Operating:										
Public safety	\$ 654,929	671,681	587,218	702,382	738,608	1,027,649	756,584	670,353	608,609	590,405
Public works	654,028	700,672	590,805	730,280	750,617	859,241	975,900	762,208	779,619	832,039
Health and social services	7,417	4,700	4,700	7,767	7,400	11,060	7,270	7,683	6,030	9,036
Culture and recreation	607,779	489,795	630,902	559,230	693,033	539,897	433,780	537,248	467,570	584,598
Community and economic development	237,933	37,814	190,437	40,244	69,010	10,466	8,200	7,203	17,125	43,249
General government	356,522	348,658	350,950	342,522	383,818	362,634	339,543	358,532	302,087	350,925
Debt service	461,016	803,840	594,882	429,206	714,969	775,922	581,670	576,161	581,082	510,916
Capital projects	454,448	294,273	1,725	3,149	1,203,196	2,192,964	737,284	1,092,852	278,495	-
Non-program	-	-	-	-	-	-	-	55,231	293,984	91,158
Total	\$ 3,434,072	3,351,433	2,951,619	2,814,780	4,560,651	5,779,833	3,840,231	4,067,471	3,334,601	3,012,326

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa (City) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the City's primary government financial statements, and have issued our report thereon dated February 2, 2015. Our report expressed unmodified opinions on the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the primary government financial statements of the aggregate discretely presented component units due to the omission of the Chariton Municipal Waterworks, the Chariton Volunteer Fire Department and the Chariton Public Library Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

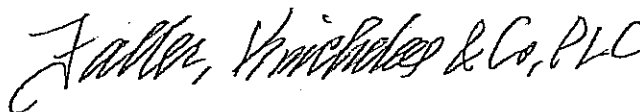
City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLLC

Des Moines, Iowa
February 2, 2015

City of Chariton

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although three individuals are involved in the accounting duties of the City of Chariton, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response acknowledged.

City of Chariton

Schedule of Findings

Year ended June 30, 2014

- (C) Material Adjustment – During the audit, we identified a material amount of property taxes misposted to an incorrect fund. Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Recommendation – The City should implement procedures to ensure property tax receipts are properly recorded in the City's financial statements.

Response – We will double check this in the future to avoid posting errors.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Chariton

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amount budgeted in the health and social services function. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Christie Metzger, Deputy Clerk	Custodial service	\$ 5,250
Christopher Hamilton, Street Employee Owner, Hamilton Roofing & Siding	Roofing	7,990
Avis Goben, Deputy Clerk Spouse of Steven Goben	Custodial service	5,040

The transactions with the above individuals do not appear to represent conflict of interests since they were entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not, except that the City Council did not approve all interfund transfers.

Recommendation – The City should implement procedures to ensure all interfund transfers are approved by the City Council.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

City of Chariton

Schedule of Findings

Year ended June 30, 2014

- (7) Deposits and Investments – The Enterprise, Sewer Fund does not receive bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa. During the year, the City owned corporate stock, which is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Other than the above, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

Recommendation – The Enterprise, Sewer Fund should receive bank interest, as required by the Code of Iowa. In addition, the City should no longer invest in corporate stock, in accordance with the Code of Iowa requirements.

Response – We will implement the above recommendations.

Conclusion – Response acknowledged.

- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.
- (9) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from reduction in debt or for any other reason to the County Auditor.

The City plans to use expected future TIF receipts to pay legal fees and engineering services which were paid in the fiscal year from the Special Revenue, Tax Increment Financing Fund. However, the City has not certified these costs as TIF debt.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City's TIF certifications and the amount of TIF debt to be certified.

Response – We will consult with our legal counsel.

Conclusion – Response acknowledged.

- (10) Lease Purchase – The City entered into a capital lease for the lease-purchase of a street sweeper. In May, 2011, the City passed a resolution which stated the City pledges the full faith and credit of the City for payment of the amounts due on this lease-purchase agreement. As a result of this resolution, the City levied a debt service levy in fiscal year 2014 to pay the lease payment from the Debt Service Fund. However, in June, 2011, the City signed an agreement with the lease finance company which stated that the lease payments in relation to this lease-purchase agreement were payable from the General Fund of the City. City personnel appeared to be unaware of this inconsistency until we brought this to their attention.

Recommendation – The City should consult with legal counsel to determine the appropriate resolution of this matter.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

City of Chariton

Schedule of Findings

Year ended June 30, 2014

- (11) Financial Condition – The Special Revenue, Tax Increment Financing Fund and the Enterprise, Airport Fund had deficit balances of \$5,246 and \$52,119, respectively, at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate these deficits to return these funds to a sound financial position.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

- (12) Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.